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EUROPEAN COMMUNITIES: The anti-inflation program recently adopted by the Council highlights the Community's continuing difficulties in concerting economic policy.

The outcome is not entirely negative for the Community. As an EC target, the finance ministers agreed on a maximum increase in consumer prices of four percent for 1973, in contrast to an expected six percent this year. To achieve this goal, they established for the first time Community guidelines for national monetary and budget policies and increased Community supervision of these policies. In response to requests by the UK, Ireland, and Italy, however, the budget guidelines apply only to countries having full employment. To reduce rapidly rising beef and veal prices, the agricultural ministers approved temporary duty reductions under the Common Agricultural Policy. While deferring action on proposals for an across-the-board temporary 15-percent reduction in customs duties and for increased imports under the general preference scheme, the Council agreed to consider anti-inflationary trade policy measures before the end of January. The Council ruled out Community wage and price controls similar to those of the US.

Public reaction in the Community has been skeptical, especially in light of the commitment of the Paris summit to take "precise" actions to fight inflation. This is particularly true in West Germany, where the public and the press were already disappointed by the summit results. The British Government, wary of EC dictates in such sensitive areas as wage policy, approves the trend away from "simple monetary solutions" to inflation and toward solutions involving the entire economic structure.

The success of the Community anti-inflation effort is not assured. As recognized before the Council meeting, the national governments must take the hard decisions necessary to reduce inflation; however, they will continue to face strong pressures for inflationary policies of high expenditure, low taxation, and easy credit. Moreover, because there is often a long lag between the implementation of monetary and fiscal policies and their full impact, new economic policy decisions--such as the French and West German bank rate increases announced this week--can do little to reduce inflation until the second half of next year. 25X1

MOROCCO: King Hassan's appointment of Ahmed Osman to form a new government may preclude the support of the principal political parties.

Osman is director of the royal cabinet and the King's brother-in-law, and political leaders view his appointment as a clear indication that Hassan does not intend to share power with them. [redacted] 25X1

Even if negotiations continue, Osman will have a difficult time bargaining with the opposition groups, which are demanding major economic and political reforms as their price for joining a new government. The Istiqlal has specifically called for the release of all political prisoners, the elimination of all foreign "bases," and nationalization of the basic sectors of the economy.

Osman's appointment strongly suggests that King Hassan is not ready to relinquish significant power to the politicians, whom he has always distrusted. He apparently is willing to risk another fruitless round of negotiations with his opposition, which could lead to further erosion of confidence in his regime. [redacted]

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MEXICO: The government's seemingly ambivalent attitude toward foreign investment is likely to increase uncertainty among private sector business interests.

Mexico City has extended its border industry program, offering foreign companies exemption from import duties and other restrictive investment regulations as an inducement to establish plants producing for export. The program previously was limited largely to the US-Mexican border area but now excludes only three major industrial centers. The program has had considerable success in attracting foreign investment, creating jobs, and expanding export earnings.

The expansion of the program comes in the midst of considerable criticism by President Echeverria and his cabinet ministers of foreign capital and is an indication that the government hopes to avoid discouraging foreign investment that corresponds to the country's economic priorities. The government continues, however, to take an increasingly nationalist stance in regard to several aspects of foreign investment. Officials have frequently complained, for example, that Mexico is paying too high a price for the use of foreign technology. The government is pushing for speedy enactment of a proposed law giving it almost complete control over such matters as technical assistance and the leasing of and payment for patent rights by both foreign and domestically owned companies in Mexico to foreign firms.

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YUGOSLAVIA: The knotty issue of how to distribute federal funds to the less developed republics has been resolved by the state presidency.

Resolution of the issue marks the first major test of Yugoslavia's complicated new constitutional system. This system provides that when the federal cabinet cannot reach agreement on a question, the issue will be arbitrated by the 22-member state presidency headed by President Tito.

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The sharp conflict over obtaining and distributing funds from the federal government has lasted for more than a year. Initially, Slovenia and Croatia--the most developed republics--had balked at the amounts they were required to contribute to aid the poorer republics. The most recent conflict has been one of determining how the funds would be divided among the underdeveloped republics. Under the terms of the compromise, Bosnia--already the major recipient of aid from the fund--will have its share increased at the expense of Macedonia and Montenegro. Kosovo's share will remain unchanged.

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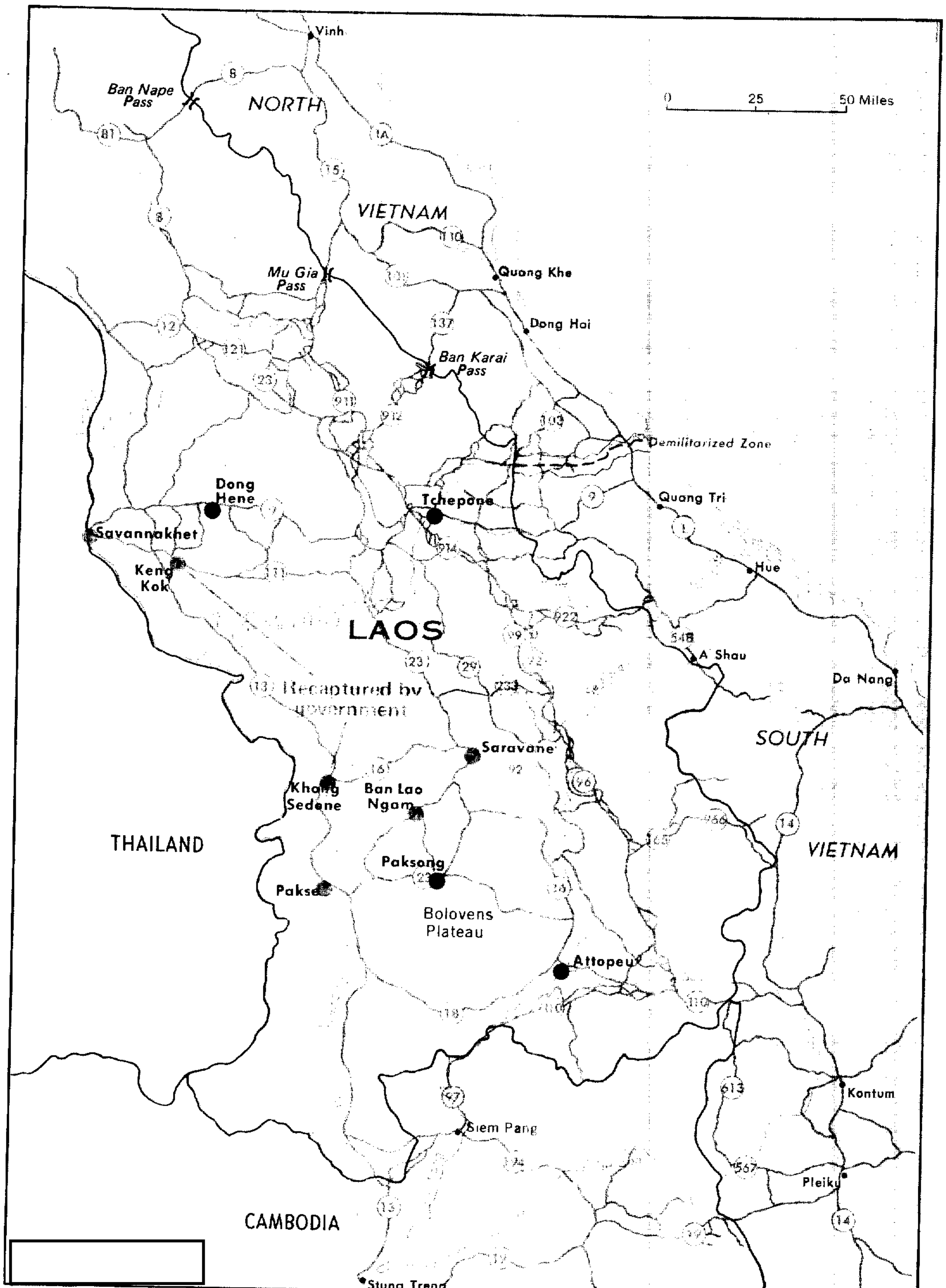

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Government-held location
Communist-held location

NOTES

LAOS: Government forces have recouped most of their recent losses in the south. A five-battalion irregular task force on 2 November recaptured Keng Kok, a village about 30 miles southeast of Savannakhet, after three days of close combat. The two battalions of the North Vietnamese 29th Independent Regiment that overran Keng Kok last weekend have apparently withdrawn to the east to regroup and resupply. In the southern panhandle, Lao Army units met no opposition in reoccupying Khong Sedone, a provincial capital 30 miles north of Pakse. Irregular forces at Ban Lao Ngam and Saravane--towns north of the Bolovens Plateau that were recaptured last week--have reported only minor skirmishing. [redacted] 25X1

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USSR: The semiannual rotation of the Soviet Mediterranean Squadron is now under way. Four of the six diesel submarines and three of the four surface warships that left Northern Fleet waters in mid-October began the eastward transit of the Gibraltar Strait on 3 November. One of the surface ships, the Zhdanov, is a light cruiser that has been modified to serve as a communications and command ship. During the turnover, the number of submarines in the Mediterranean will remain high for several days as the outbound units head west toward Gibraltar. [redacted]

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LIBYA: Major al-Huni, the third most influential member of the Revolutionary Command Council (RCC), was removed from his post as interior minister yesterday, but retained on the RCC, the supreme ruling body in Libya. His removal may have been related to an advancing eye disease and thus be of little political consequence. There is evidence, however, that he may be at odds with his colleagues over the prospective union with Egypt. Al-Huni has never been enthusiastic about the merger and is known to have resisted growing Egyptian influence in his ministry. Further evidence that President Qadhafi is eliminating anti-union sentiment from the cabinet is provided by the fact that Minister of Planning Isa Qiblawi, who shares al-Huni's views, was also dropped in the reshuffle.

[redacted] 25X1

TURKEY: The new five-year economic plan proposed by the Melen government and recently approved by Parliament has evoked criticism from the minority Republican Peoples Party (RPP). The plan, which covers the years 1973-77, is the first major piece of legislation the Melen government has offered during its six-month tenure. Controversy centers on the plan's emphasis on private enterprise and restrictions on future governmental involvement in the economy. It also relaxes restrictions on foreign capital investment. Under RPP governments the state gained control of 50 percent of Turkey's industrial sector, and RPP leader Bulent Ecevet views the new plan as an unacceptable reversion to "exploitation of the masses." Although threats by the socialist-oriented RPP to withdraw its ministers from the cabinet have not been carried out, the plan is likely to remain a source of contention between the RPP and its followers in the bureaucracy and Turkey's more capitalist-oriented politicians. [redacted] 25X1

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